



UNIVERSITI PUTRA MALAYSIA

**CORPORATE CULTURE, LEADERSHIP STYLE, AND
PERFORMANCE OF FOREIGN AND LOCAL ORGANIZATIONS
IN MALAYSIA**

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**CORPORATE CULTURE, LEADERSHIP STYLE, AND PERFORMANCE
OF FOREIGN AND LOCAL ORGANIZATIONS IN MALAYSIA**

By

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**Thesis Submitted to the Graduate School of Management,
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Abstract of thesis presented to the Senate of Universiti Putra Malaysia in partial fulfillment of the requirement for the degree of Master of Science

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October 2003

Chairman: Raduan Che Rose, Ph.D.

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This study examined the relationship between corporate culture, leadership style, and performance in Malaysia. This research also investigated the corporate culture and leadership style in local and foreign organizations. Organizational culture was measured by using the Competing Values Framework (Quinn and Rohrbaugh, 1983; Cameron and Quinn, 1999), leadership style was measured by using the model developed by Javidan & Dastmalchian (1993) and Dastmalchian (2000), while performance was measured in terms of profitability. A total of 134 companies, comprising of 60 foreign companies and 74 local companies participated in the study. The Chi-square tests, Pearson correlation, and cross tabulation tests analysis were carried out to measure the significant association between the variables. The findings showed that local companies tend to have a hierarchical culture, while foreign companies tend to have a clan and result-oriented culture. As for the leadership style, the results showed the similarity of both local and foreign companies in practicing an auditor style of leadership. Cross-tabulation results also

revealed that there is an association between organizational culture and leadership style in foreign organizations but no association was found in local organizations. With regards to the relationship between organizational culture and performance, it was found that there is no association between them in foreign or local companies due to other influencing external factors. In addition, no significant relationship was found between leadership style and performance in foreign or local companies.

Abstrak tesis yang dikemukakan kepada Senat Universiti Putra Malaysia
sebagai memenuhi sebahagian keperluan untuk ijazah Master Sains

**KAJIAN BUDAYA ORGANISASI, CARA KEPIMPINAN, DAN
PENCAPAIAN ORGANISASI ASING DAN TEMPATAN DI MALAYSIA**

Oleh

NOR SIAH JAHARUDDIN

Oktober 2003

Pengerusi: Raduan Che Rose, Ph.D.

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Kajian ini meneliti pengaruh budaya organisasi dan cara kepimpinan ke atas pencapaian sesuatu organisasi di Malaysia. Penyelidikan ini juga mengkaji perkaitan di antara budaya organisasi dan cara kepimpinan dalam konteks organisasi tempatan dan organisasi asing. Bagi budaya organisasi ianya diukur menggunakan model "Competing Values Framework" hasil penemuan Quinn and Rohrbaugh (1983) dan Cameron and Quinn (1999); dan cara kepimpinan pula diukur dengan menggunakan model Javidan & Dastmalchian (1993), dan Dastmalchian (1999). Sementara pencapaian pula diukur berdasarkan kepada keuntungan syarikat dari jumlah jualan. Sejumlah 134 buah syarikat yang berdaftar, terdiri dari 60 buah syarikat tempatan dan 74 buah syarikat asing telah mengambil bahagian di dalam kajian ini. Ujian ki kuasa dua, korelasi Pearson, dan penjadualan bersilang telah dijalankan untuk mengukur perkaitan di antara variabel. Hasil kajian menunjukkan bahawa syarikat tempatan cenderung mengamalkan budaya hirarki, sementara syarikat asing pula berkecenderungan mengamalkan budaya kumpulan dan

budaya orientasi-hasil. Hasil keputusan juga menunjukkan bahawa terdapat persamaan cara kepimpinan iaitu cara pengaudit di antara organisasi tempatan dan asing. Keputusan penjadualan bersilang turut mendapati bahawa terdapat perkaitan di antara budaya organisasi dan cara kepimpinan di dalam organisasi asing tetapi tiada perkaitan di dalam organisasi tempatan. Bagaimanapun, keputusan penjadualan bersilang menunjukkan tiadanya perkaitan diantara budaya organisasi ke atas pencapaian syarikat asing dan tempatan kerana mungkin terdapat factor-faktor luaran lain yang mempengaruhi. Kajian ini juga mendapati tidak wujud perkaitan di antara cara kepimpinan terhadap pencapaian sesebuah organisasi.

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I certify that an Examination Committee met on **22nd August 2003** to conduct the final examination of **Nor Siah Jaharuddin** on her **Master of Science** thesis entitled "**Corporate Culture, Leadership Style, and Performance of Foreign and local Organizations in Malaysia**" in accordance with Universiti Pertanian Malaysia (Higher Degree) Act 1980 and Universiti Pertanian Malaysia (Higher Degree) Regulations 1981. The Committee recommends that the candidate be awarded the relevant degree. Members of the Examination Committee are as follows:

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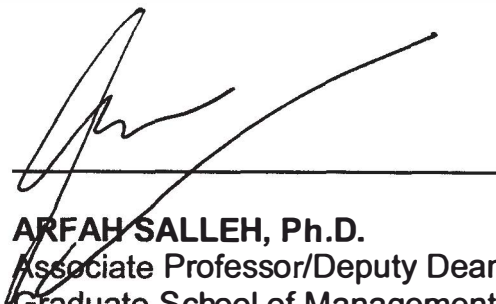
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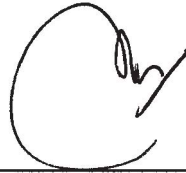
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DECLARATION

I hereby declare that the thesis is based on my original work except for quotations and citations which have been duly acknowledged. I also declare that it has not been previously or concurrently submitted for any other degree at UPM or other institutions.



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Date: 22 OCTOBER 2013

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CHAPTER I

INTRODUCTION AND RESEARCH OVERVIEW

Introduction

Research on leadership and organizational culture has attracted considerable interest from both academics and practitioners. However, the link between leadership and performance, and between culture and performance, has often been studied independently. For example, researchers have examined the links between leadership styles and performance (Bycio et al, 1995; Avolio and Bass, 1993), and between organizational culture and performance (Deal and Kennedy, 1982; Denison, 1990; Peters and Waterman, 1982; Kotter and Heskett, 1992). There were also other studies on organizational culture and quality management (Lewis, 1998; Sousa-Poza, Nystrom, and Wiebe, 2001; Chang, 1996), and national culture (Hofstede, 1980; Trompenaars, 1993; Joiner, 2001).

Deal and Kennedy (1982) in their book *Corporate Cultures: The Rites and Rituals of Corporate Life*, were possibly the pioneering authors who had successfully changed the perspective of managers about the importance of corporate culture, by linking it to the company's performance. They were able to attract not only academics, but also managers to be more serious about culture due to their findings that a strong culture was important to organizational success.

Since then, a shift of interest has been apparent in the studies of culture

and its relationship on leadership style as another factor contributing toward organizational performance. Numerous aspects of the organizational culture literature allude to the role of leaders in creating and maintaining particular types of culture (Schein, 1992). Equally, literature on leadership suggest that the ability to understand and work within a culture is a prerequisite to leadership effectiveness (Hennessey, 1998).

This study plays an important role in presenting a review of the empirical evidence of the links between the different types of organizational culture, a range of leadership styles, and organizational performance in local and foreign companies across Malaysia.

Background

Malaysia is located and strategically positioned in the heart of Southeast Asia. Measured by the size, it is a relatively small country, with a land area of 329,733 km² (about 127,000 square miles) compared to its neighboring countries such as Thailand, Indonesia, and Burma.

The total population of Malaysia was about 21.5 million in 1997, consisting of a mix of three main races (Malay, Chinese, and Indian). Malays and the indigenous peoples account for fifty-eight percent, Chinese thirty-one percent, Indians nine percent, and others two percent (Malaysia, Jabatan Perangkaan 1996). Malaysia's population now at an average rate of 2.6 percent in the 1980s, and about 2.3 percent in the 1990s. The country's total labor force is estimated at eight million in various sectors such as the manufacturing, service, agriculture, and construction.

Malaysia is also a multi-religious country based on the ethnic origin. Islam

is the official religion, while Buddhism, Christianity, Hinduism, and other religions are widely practiced in the country. The national language is Bahasa Malaysia, but English language is widely spoken and used as a second language. Other spoken language includes various Chinese dialects and Tamil.

Malaysian Development Program

Malaysia is a relatively new nation, which attained independence from Great Britain on August 31st, 1957 through peaceful negotiations. Since then, Malaysia has sustained and enjoyed a considerable degree of political stability.

The introduction of the New Economic Policy (NEP) in 1970 marked the beginning of Malaysia's attempt to use socio-economic engineering in an effort to create a more equitable distribution of wealth between all races in the society. The main objective of the program was to restructure the pattern of the economic activities, eliminating the identification of race with economic function, and eradicating poverty irrespective of race (Malaysia, 1975). A structured periodic framework known as the First Outline Perspective Plan (OPP1) covering a period of twenty years was introduced to outline certain policies and strategies under the NEP. After the end of the NEP in 1990, the Malaysian government launched OPP2 from 1991 to 2000. Since the introduction of OPP1 in 1970, Malaysia has achieved a relatively rapid and sustained economic growth.

Foreign Direct Investment in Malaysia

Since Independence, the Malaysian government has been aware of the

importance of the private sector and multinational corporations (MNC's) for capital accumulation and technology transfer, which was recognized as being indispensable for the attainment of economic development (MITI, 1996). Emphasizing on export-led industrialization was seen as the way to compete in the international market place. As such, Malaysia actively sought out foreign capital by deregulating and expanding incentives to attract foreign enterprise in industrial development. The early 1970's witnessed a rapid inflow of foreign investment into the Malaysian economy (MITI, 1996). This was shown by the growth in the number of multinational organizations such as Ericsson, Nokia, Motorola, National Panasonic, Sony, Samsung, and others, which had diversified their markets in Malaysia.

At the end of 1995, there were more than 3,000 international companies from over fifty countries operating in Malaysia with a total investment of US\$5.2 billion (MITI, 1996:45). Malaysia was among the top ten host developing economies in terms of Foreign Direct Investment (FDI) flows and stock. According to the World Bank (1995), when compared to other ASEAN countries in the top ten, Malaysia was second in terms of FDI inflow (US\$5.2 billion), behind Singapore (US\$6.8 billion), but ahead of Indonesia (US\$2 billion) and Thailand (US\$1.7 billion). Japan was the leading investor in Malaysian economy during that period, followed by the USA, Taiwan and Singapore.

Accordingly, the main factor contributing to foreign investment is the government's full commitment to create an investment environment and policies that provide businesses with opportunities for growth and profits

(MITI, 1996). Malaysia's policy regarding foreign investors can be traced to as early as 1965 with the establishment of the Federal Industrial Development Authority (FIDA), now known as Malaysian Industrial Development Authority (MIDA) whose main duty was to promote, coordinate and accelerate overall industrial development in Malaysia.

The Capital Issues Committee (CIC) and the Foreign Investment Committee (FIC) were established with the main responsibility of identifying new industrial projects, providing specific investment promotion programmes, advising the private sectors on participation in new ventures, and coordinating industrial development strategies. In addition, industrial infrastructure and various other incentives ranging from equity ownership policy and tax relief to the relaxation of laws governing commercial activity have been introduced by the Malaysian government, reflecting the policy of welcoming FDI.

Accordingly, the government attempted to create conditions and a climate hospitable to foreign business enterprises by creating Free Trade Zones (FTZs) with infrastructural facilities and the enactment of the Investment Incentives Act (1968)- measures intended mainly to encourage foreign investors and companies to operate in Malaysia. The entry of foreign MNCs, especially from USA and Europe, in the early 1970s marked a shift in the Malaysian economy, followed by a significant inflow of Japanese FDI from late 1980.

Malaysian Labor Market

Out of a population of 21.5 million, the Malaysian labor force currently

stands at more than 7.9 million, or 36.7 per cent of the total. However, despite the government's effort to produce needed skilled manpower, rapid economic growth has not been balanced by the current labor supply. During the early 1990s, when economic growth was high, the labor market continued to tighten further, especially in the manufacturing and construction sectors (Malaysia Department of Statistics, 1996). The unemployment rate reached an unprecedented low of 2.8 percent in 1994 and since then Malaysia has attained virtually full employment.

Therefore, efforts were taken by the Malaysian government to ensure that Malaysians are trained and employed at all levels of industry. In certain circumstances as stipulated in the guidelines for FDI (MITI, 1996), permission is given to the companies to recruit foreign personnel in areas where there is a shortage of trained Malaysians. Moreover, certain key posts are allowed to be filled permanently by expatriates.

Companies are also encouraged to make every effort to train Malaysians so that the employment pattern at all levels of organization will reflect the multi-racial composition of the country. The guidelines for the employment of expatriate personnel were set up by the government to be followed by all MNCs (MITI, 1996).

As labor shortages, of both skilled and unskilled workers, have become more prevalent, especially in the more industrialized states of the country, the government has started to allow the recruitment of foreign workers. Many unskilled laborers from Indonesia, Bangladesh, Thailand, Philippines, and Pakistan, as well as expatriates from other countries and

highly skilled manpower were recruited. As a result, a high level of economic growth based on industrialization and foreign investment has created a diverse workforce.

Workforce Diversity

As the composition of the Malaysian workforce has changed dramatically since about 1950 due to the Chinese and Indian migration, and since then by other minority races as well, the workforce diversity has brought different cultural values and leadership styles to organizations in Malaysia. This has been further added through the globalization of business of foreign and local organizations in Malaysia.

For organizations with diverse workforces in place, the challenges of creating a positive organizational culture and using diversity to create economic value are substantial. With a diverse workforce and positive organizational culture in place, many managers believe their companies will be able to:

- i. Develop products and services for new markets.
- ii. Attract a broader range of customers.
- iii. Improve customer satisfaction.
- iv. Reduce cost (associated with litigation)

For example, Ericsson Telecommunications, which has been established for the past 125 years in over 140 countries, had employed an international workforce of over 100,000 employees. Workforce diversity brought benefits to the organizations because it increases the range of choices. For example, Ericsson

43 countries who work together towards developing new technologies, solutions and applications. Their ability to work as a team despite the cultural differences shows the importance of managing diversity in global businesses (Ericsson Homepage, 2001)

Managing cultural diversity is not a one-time program, but a continuing process due to the changes in the economy, technology, environment, and others. Therefore commitments from the top management as leaders are needed to institute a positive organizational culture, and use diversity to create economic value for the firms.

The Overview of Culture, Leadership and Performance

In Malaysian society, shared assumptions, values, socialization experiences, symbols, language, narratives, and practices are some of the cultural elements that unite members of different cultural backgrounds based on ethnicity, and maintain a distinction between members and non-members in organization. Similarly, an organization may have its own unique culture while also having distinctive subcultures in some departments or among members of some professions. People from different corporate and industry cultures may be brought together through mergers, acquisitions, joint ventures, and other form of strategic alliances. This is how culture play an important role in the organization's daily life.

Corporate culture can be defined as the pattern of shared beliefs, attitudes, assumptions and values in an organization, which may not have been articulated (Schein, 1992; Denison, 1990). However, in the absence of direct instructions and written procedure, culture can shape the way